The Cost of Healthcare

Objectives

- Understand the recent trends in U.S. healthcare expenditures and explain the reasons behind the changes
- Describe how managed care has affected healthcare costs and delivery over the past 10 years
- Discuss the mechanisms and programs used by the U.S. government to finance healthcare

Outline

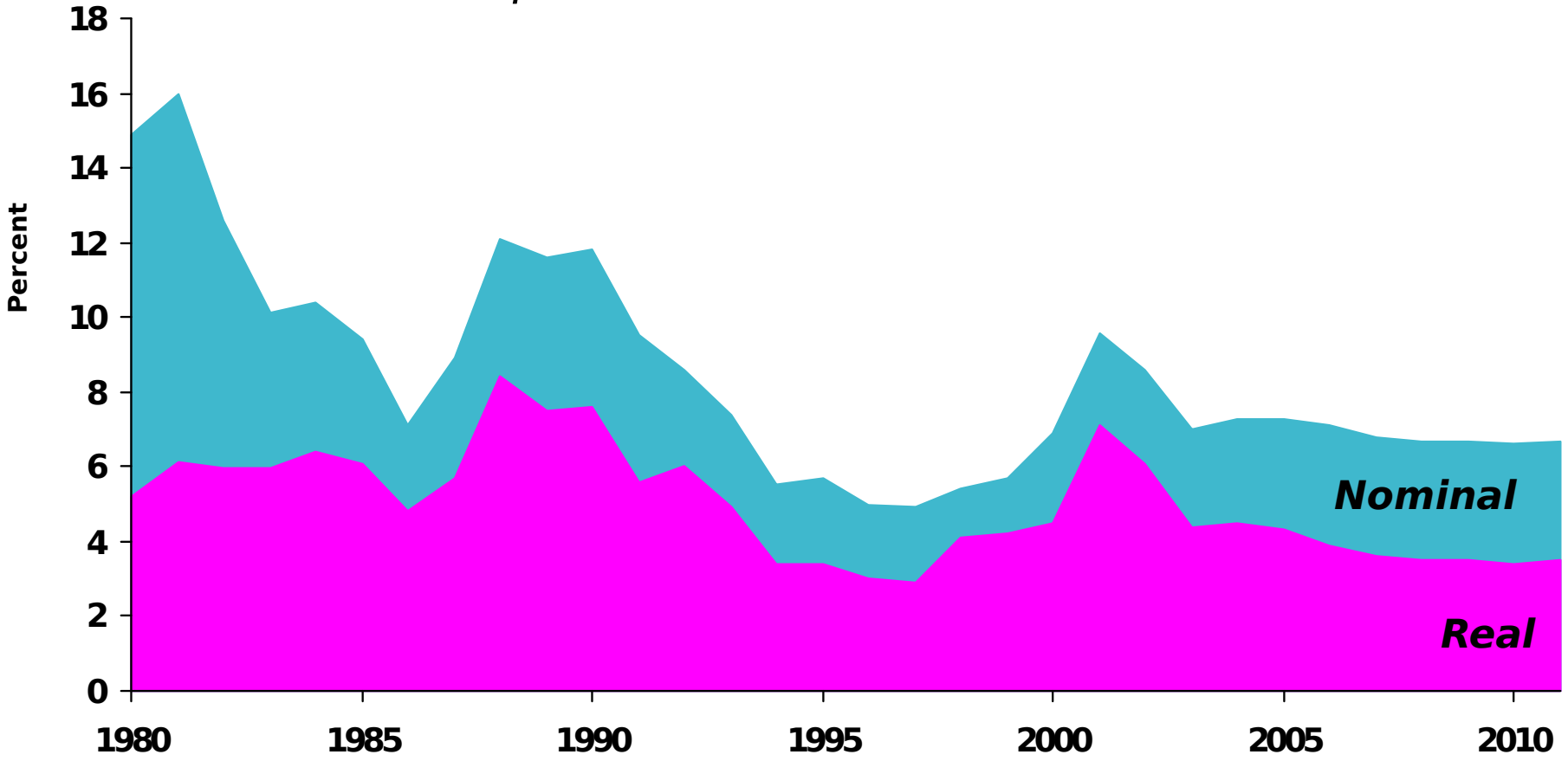
- Trends in health care spending
- Impact of managed care
- Government financing of health care

Macro Issues Affecting Healthcare Spending

- Fiscal Deficit
- Defense and Health Spending
- Interest and Inflation
- Personal Wealth
- US Economy

Growth in National Health Expenditures

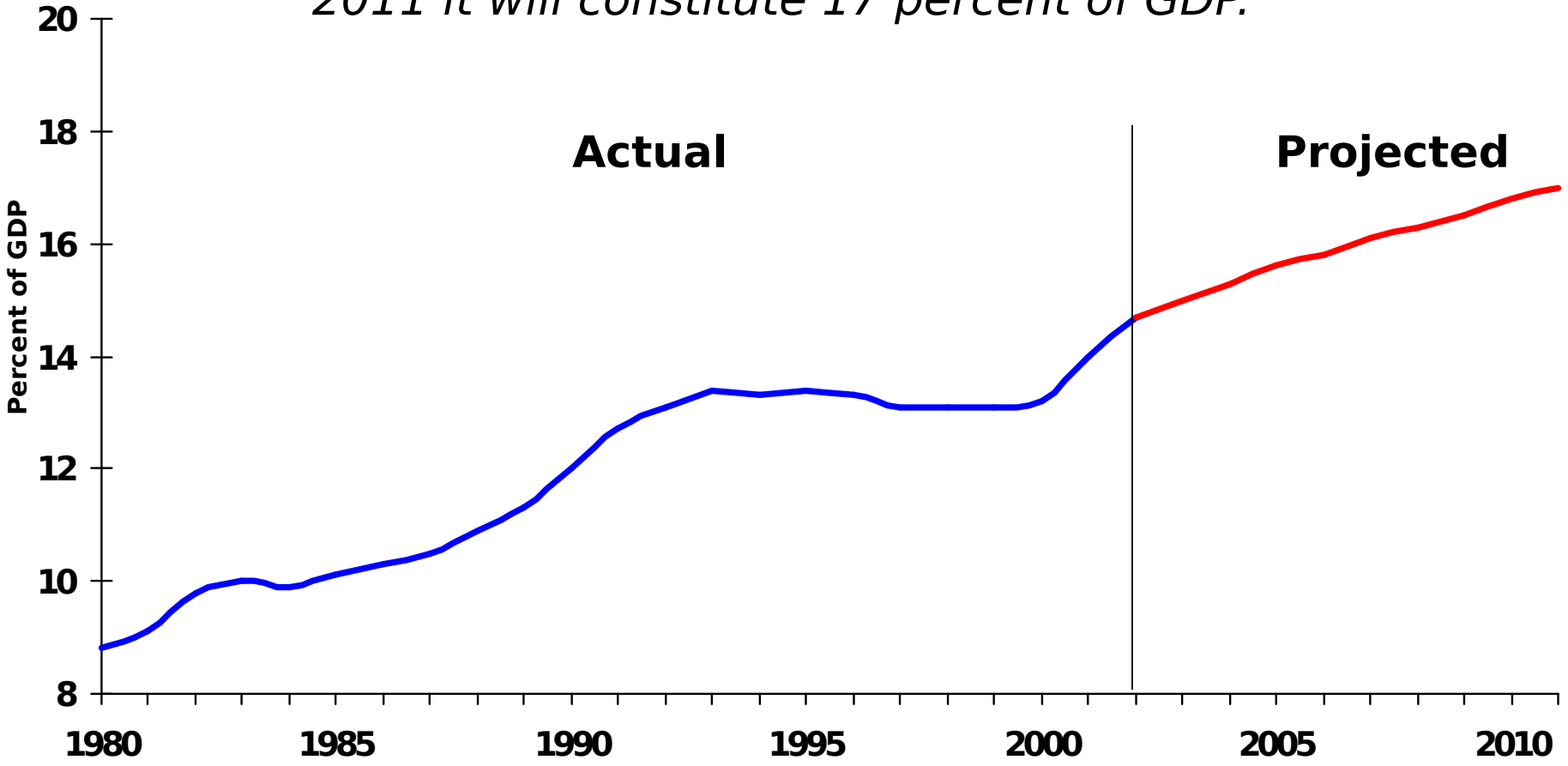
Nominal health expenditures projected to exceed the growth of the mid- to late 1990s, but fall short of the growth experienced in the late 1980s.



Source: CMS, Office of the Actuary, National Health Statistics Group.

National Health Expenditures as a Share of GDP

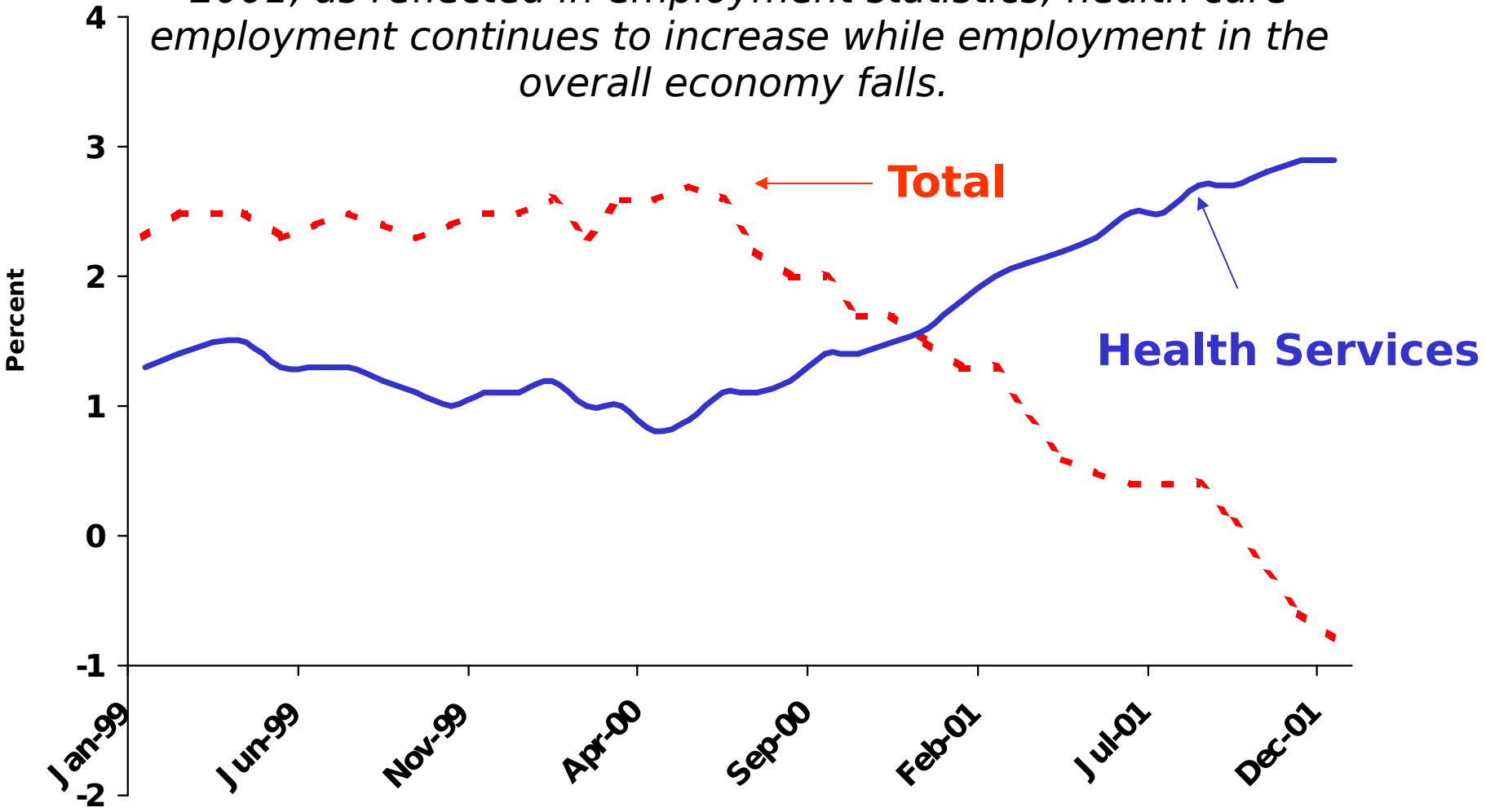
Between 2001 and 2011, health spending is projected to grow 2.5 percent per year faster than GDP, so that by 2011 it will constitute 17 percent of GDP.



Source: CMS, Office of the Actuary, National Health Statistics Group.

Growth in Total and Health Services Employment

The upturn in health spending in 2000 is expected to continue in 2001, as reflected in employment statistics; health care employment continues to increase while employment in the overall economy falls.

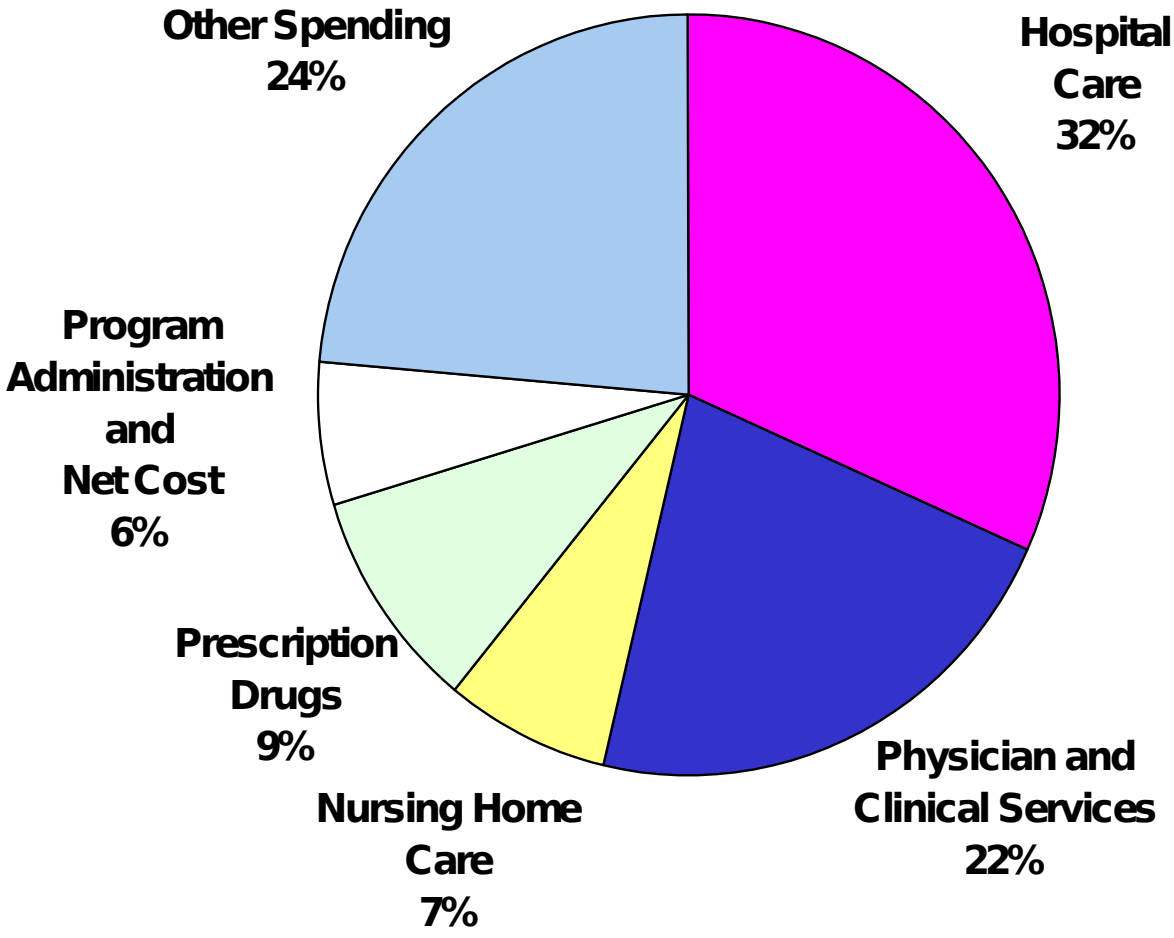


Note: Percent change from the same period of previous year.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Nation's Health Dollar, CY 2000

Hospital and physician spending accounts for more than half of all health spending.



Total Health Spending = $1.3 Trillion

Source: CMS, Office of the Actuary, National Health Statistics Group.

Issues Affecting Healthcare Spending

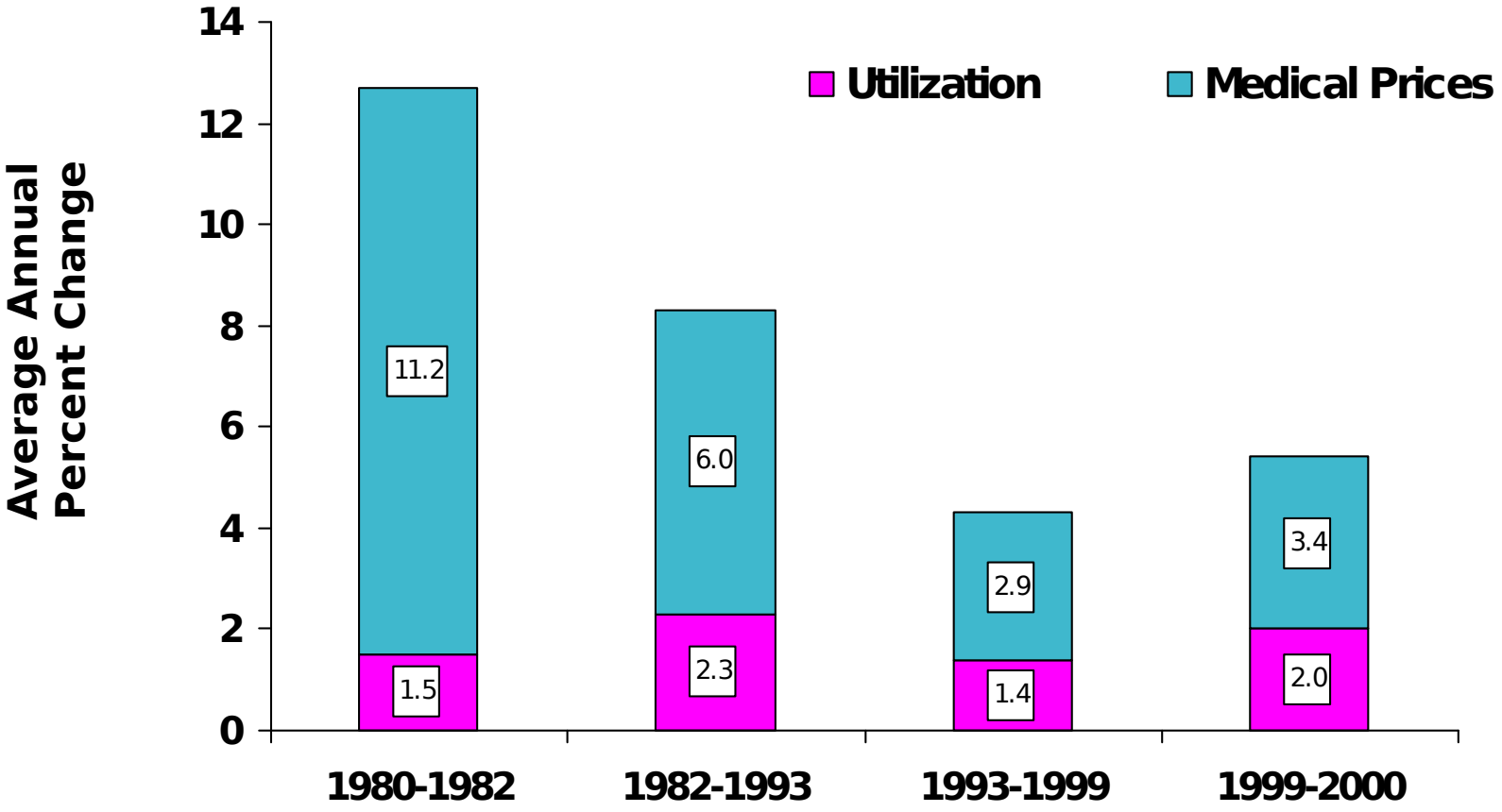
- ✓ Uninsured Population
  - Expected growth to 48 million by 2008 (42 M today)
  - Strongly dependent on economy
- ✓ Medicare prescription benefit
  - Political issue
  - Scrutiny of drug prices & profits

Issues Affecting Healthcare Spending, cont.

- ✓ Patient Safety Issues
- ✓ Privacy and Confidentiality Issues
  - HIPAA
- ✓ Biotechnology and ethics
- ✓ Regulation and Oversight
  - Fraud, waste and abuse

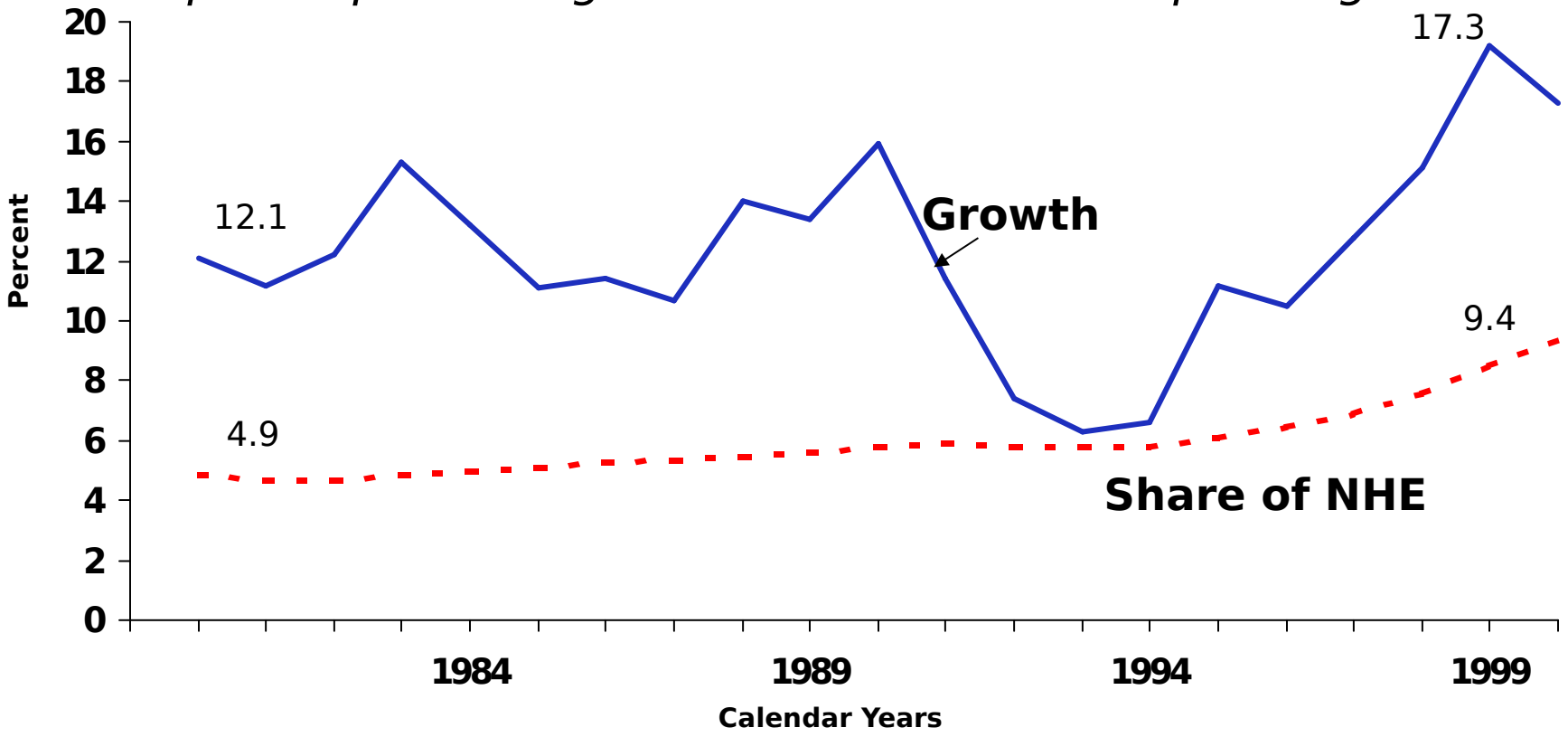
Effect of Utilization and Price on Health Care Expenditures

The most important factor accounting for the slowdown in health care expenditure growth after 1993 was the decline in medical price growth.



Prescription Drug Expenditure Growth

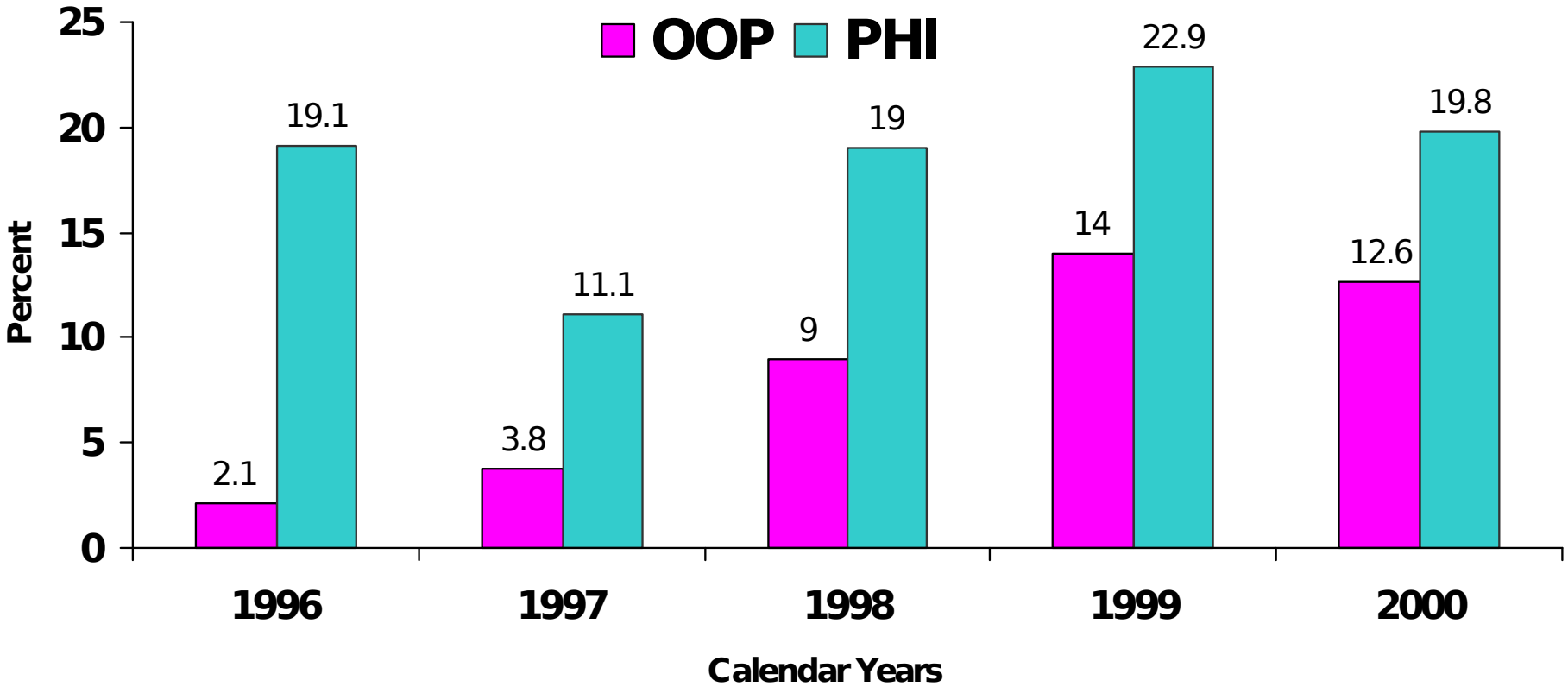
Sharply rising prescription drug expenditure growth in the mid- to late 1990s caused noticeable growth in prescription drugs share of total health spending.



Source: CMS, Office of the Actuary, National Health Statistics Group.

Growth in Prescription Out-of-Pocket and Private Health Insurance Spending

To control drug spending, insurers implemented tiered co-pays, shifting part of spending growth to consumers. This contributed to a smaller gap between out-of-pocket and private health insurance spending.



Source: CMS, Office of the Actuary, National Health Statistics Group.

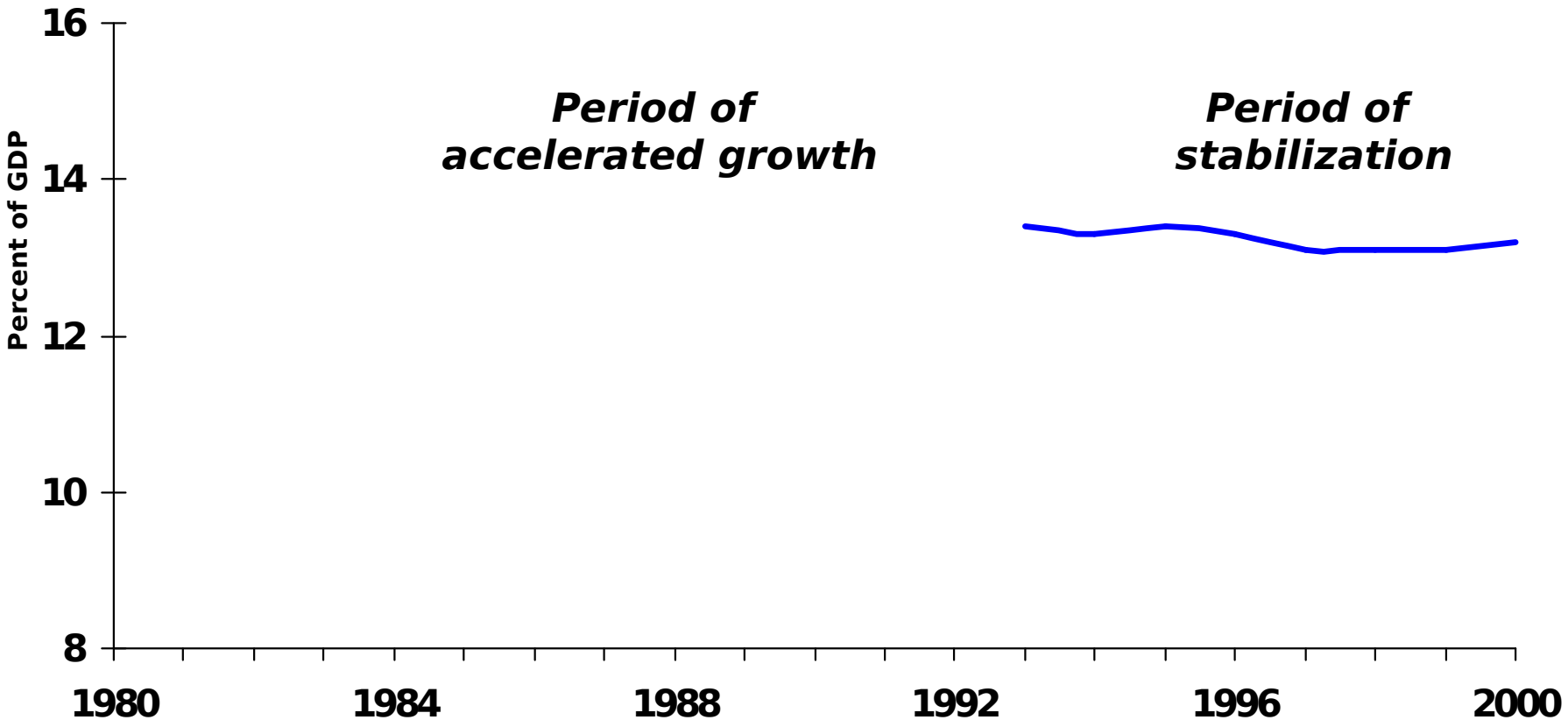
Outline

- Trends in health care spending
- Impact of managed care
- Government financing of health care

Continuum of Managed Care

Managed Care and Health Spending

Rapid growth in the health spending share of GDP stabilized from 1993 to 2000…

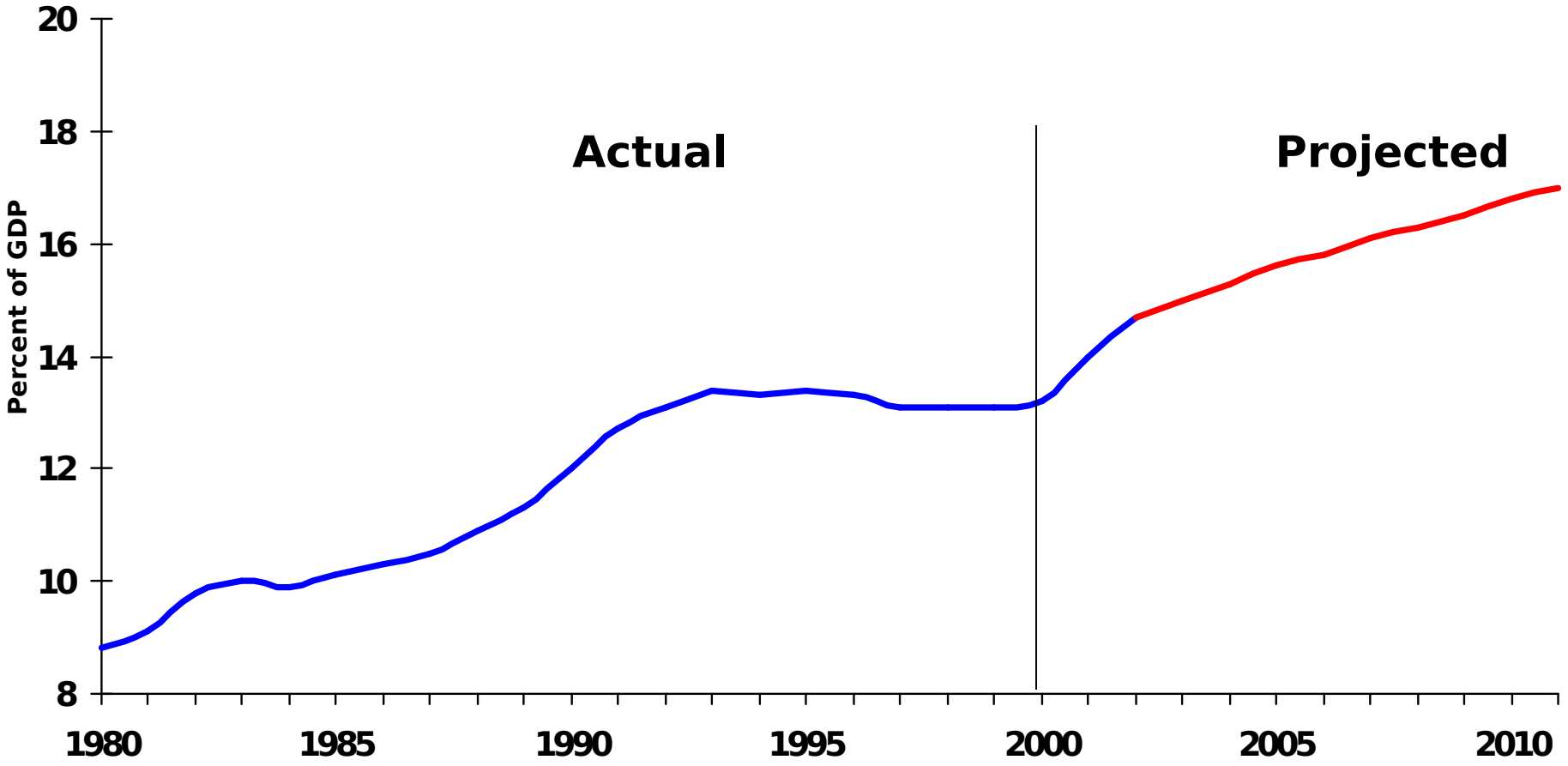


BUT……

Source: CMS, Office of the Actuary, National Health Statistics Group.

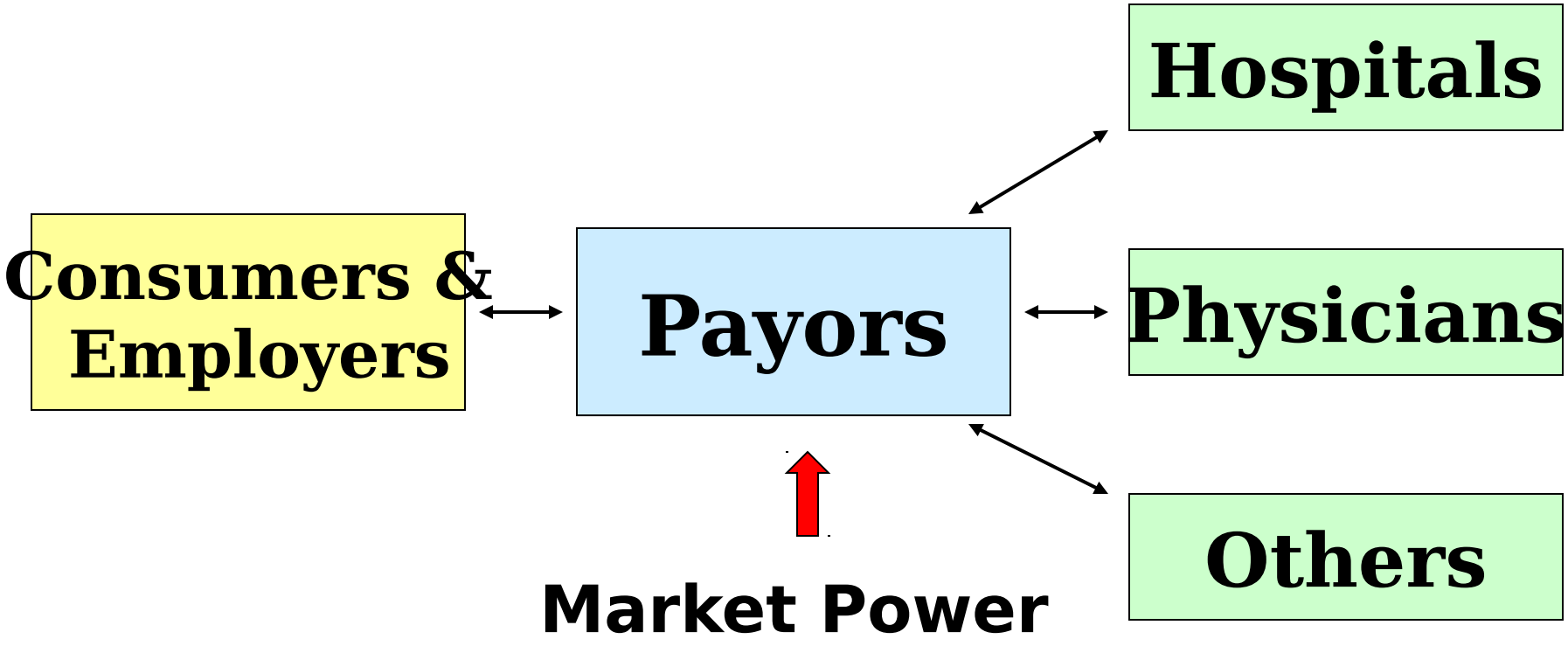
Managed Care and Health Spending

2000 and beyond…



Source: CMS, Office of the Actuary, National Health Statistics Group.

Healthcare Market Model



Early Managed Care 1992-1997

- Characterized by:
  - Increasing enrollments to HMO
    - Employers
    - Govt. programs (Medicaid and M+C plans)
  - Utilization reductions
    - Prospective review
    - Gatekeeper approach
  - Overall health spending reductions
    - Stable premiums to employers, employees
  - Profits to MCOs
    - Industry consolidation
    - IDS
  - Increasing concerns by consumers
    - Access

Mature Managed Care 1997-2002

- Characterized by:
  - Consumer emphasis on choice
    - Greater enrollment in PPOs; wider provider networks
    - More out-of-network benefits
    - Roll-back in incentives to control cost
  - Greater use of case management, disease management programs
  - Inability to maintain level premiums
    - Return of health care inflation
    - Hospital spending increase
    - Significant pharmacy cost growth
  - Abandonment of IDS approach
  - Greater cost sharing
    - Increased deductibles, copays, etc for consumers
  - Low provider fees
    - Impact on participation; AMCs
  - Fewer M+C plans
  - Government (Federal and State) regulations

Mich.’s Spectrum Health, Blue Cross Blue Shield face off over rate hikes

8/22/02 The contentious debate between Spectrum Health and Blue Cross Blue Shield of Michigan continues…

Spectrum Health, the largest hospital in the six-county West Michigan area, wants rate increases to offset the $30 million it contends is lost each year providing indigent care. Blue Cross, the state’s dominant insurer—contends that the increases would result in reimbursement rates that are higher than those of other insurers and translate into higher costs for patients. Meanwhile, the area’s largest physician group, Physician’s Organization of West Michigan—which represents 600 doctors—has voiced its support

Outline

- Trends in health care spending
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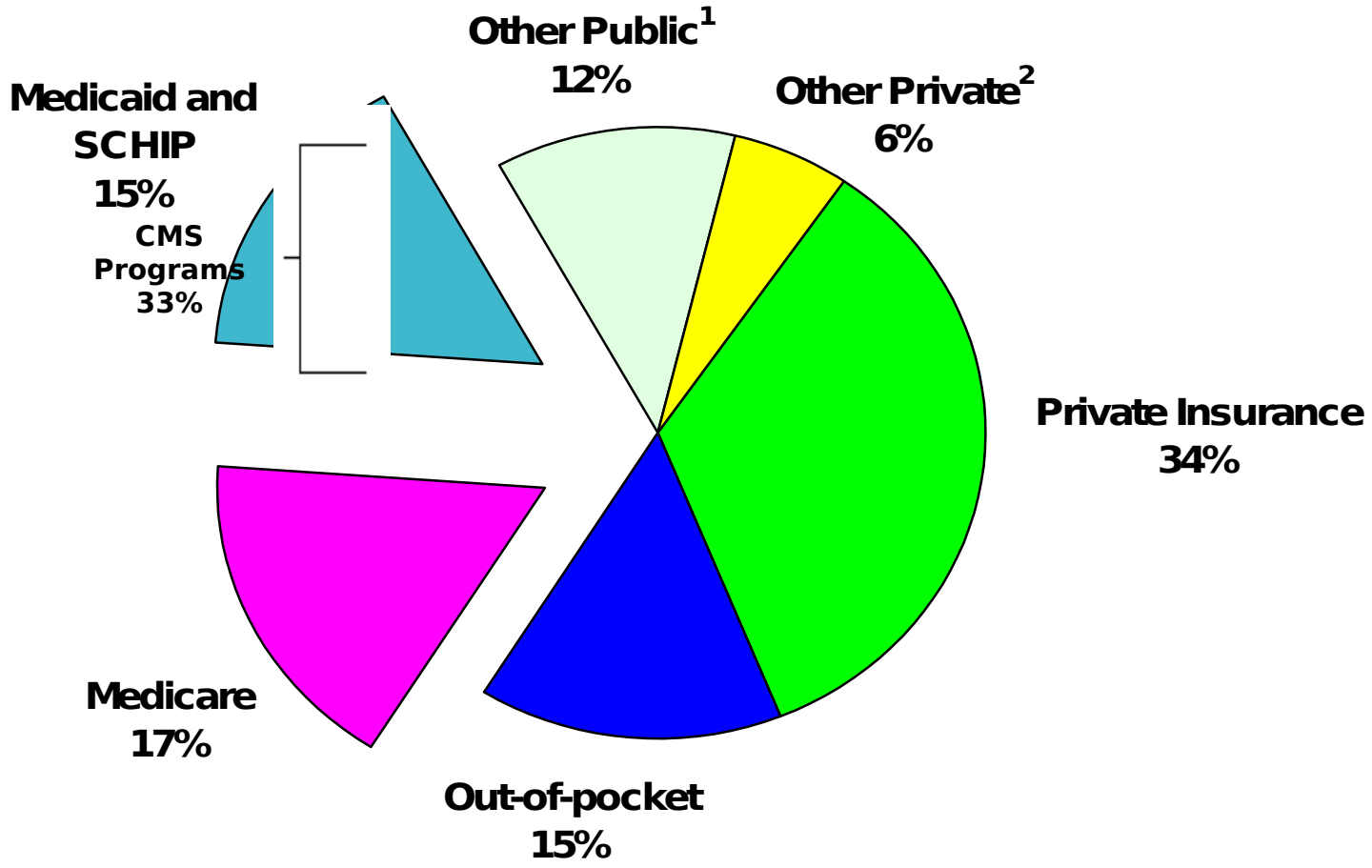
Government Financing of Health care

- Direct spending
  - Over 45% of US healthcare outlays
  - Medicare, Medicaid, TRICARE, VA, BOP, IHS, PHS
  - Research
  - Surveillance
- Indirect spending (another 15% or more)
  - Tax subsidies and credits
  - Education loans, grants

Nation's Health Dollar, CY 2000

Medicare, Medicaid, and SCHIP account for one-third of national health spending.



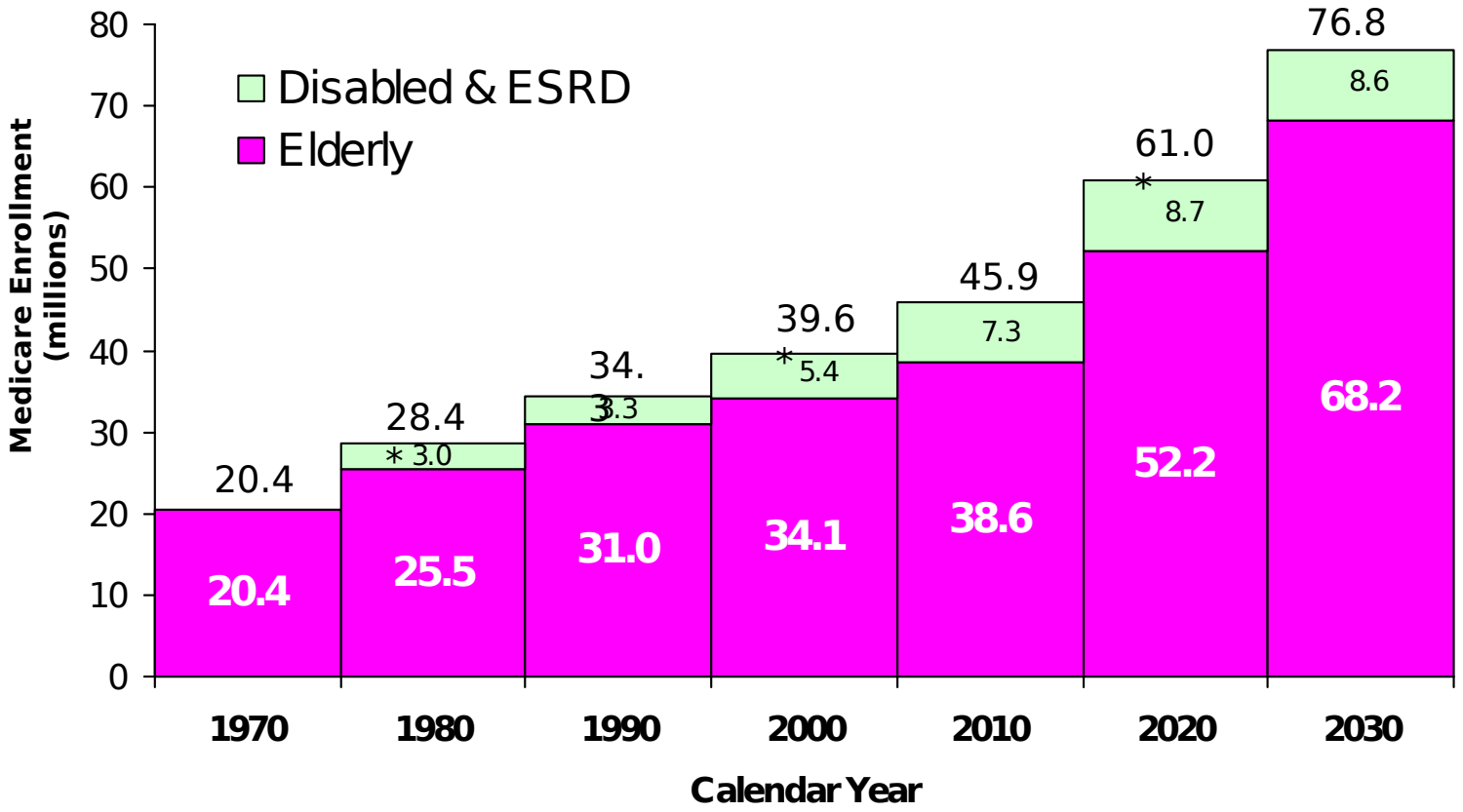
Total National Health Spending = $1.3 Trillion

Medicare

- ✓ Federal Program – legislated in 1965
  - Title XVIII Social Security Act
- ✓ Coverage:
  - Elderly
  - Disabled (for more than 2 years)
  - End Stage Renal Disease (later added as a benefit)
- ✓ 2002 projections
  - Cost - $255B
  - Beneficiaries – 40M
    - Expected to grow to 70M in next 25 years

Number of Medicare Beneficiaries

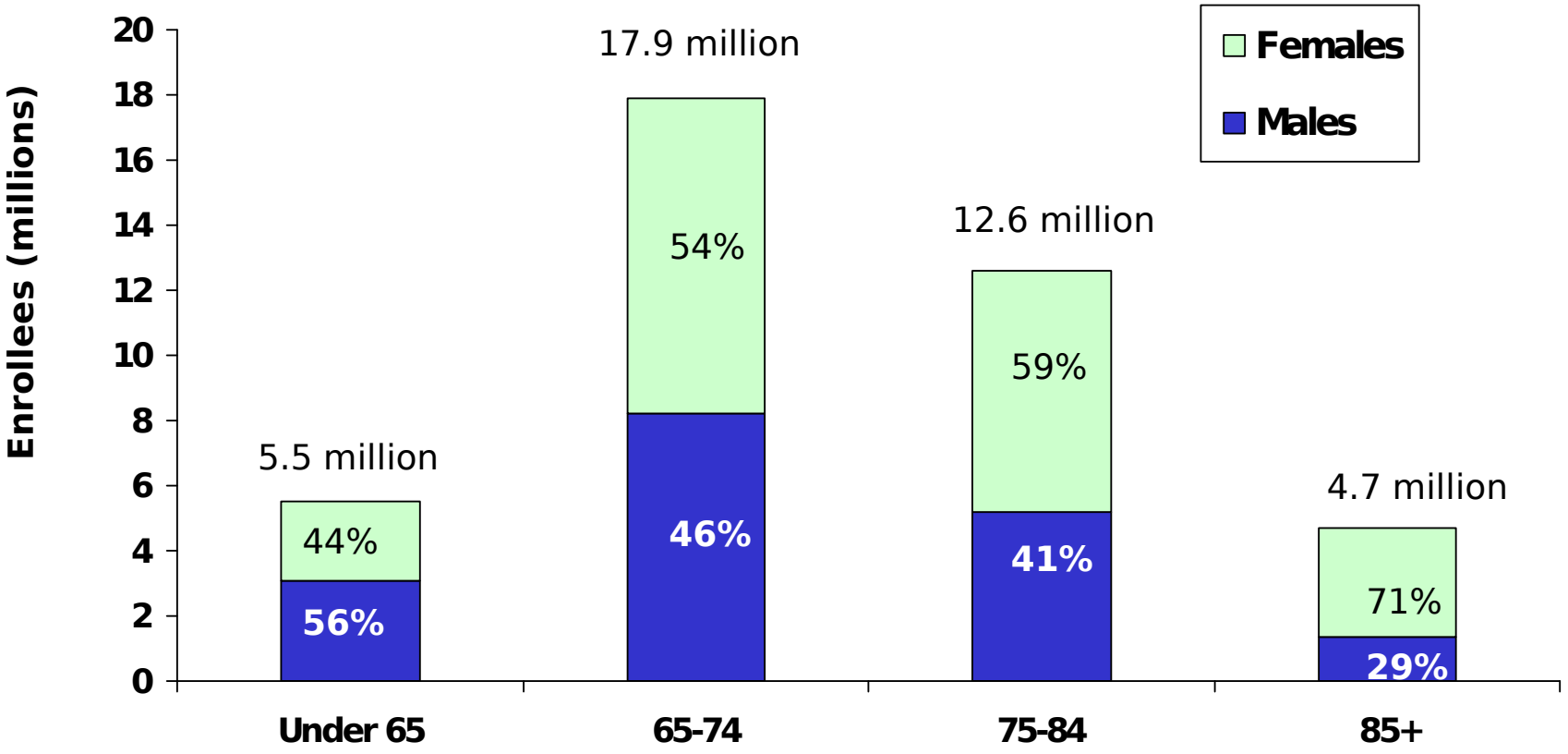
The number of people Medicare serves will nearly double by 2030.



* Numbers may not sum due to rounding.

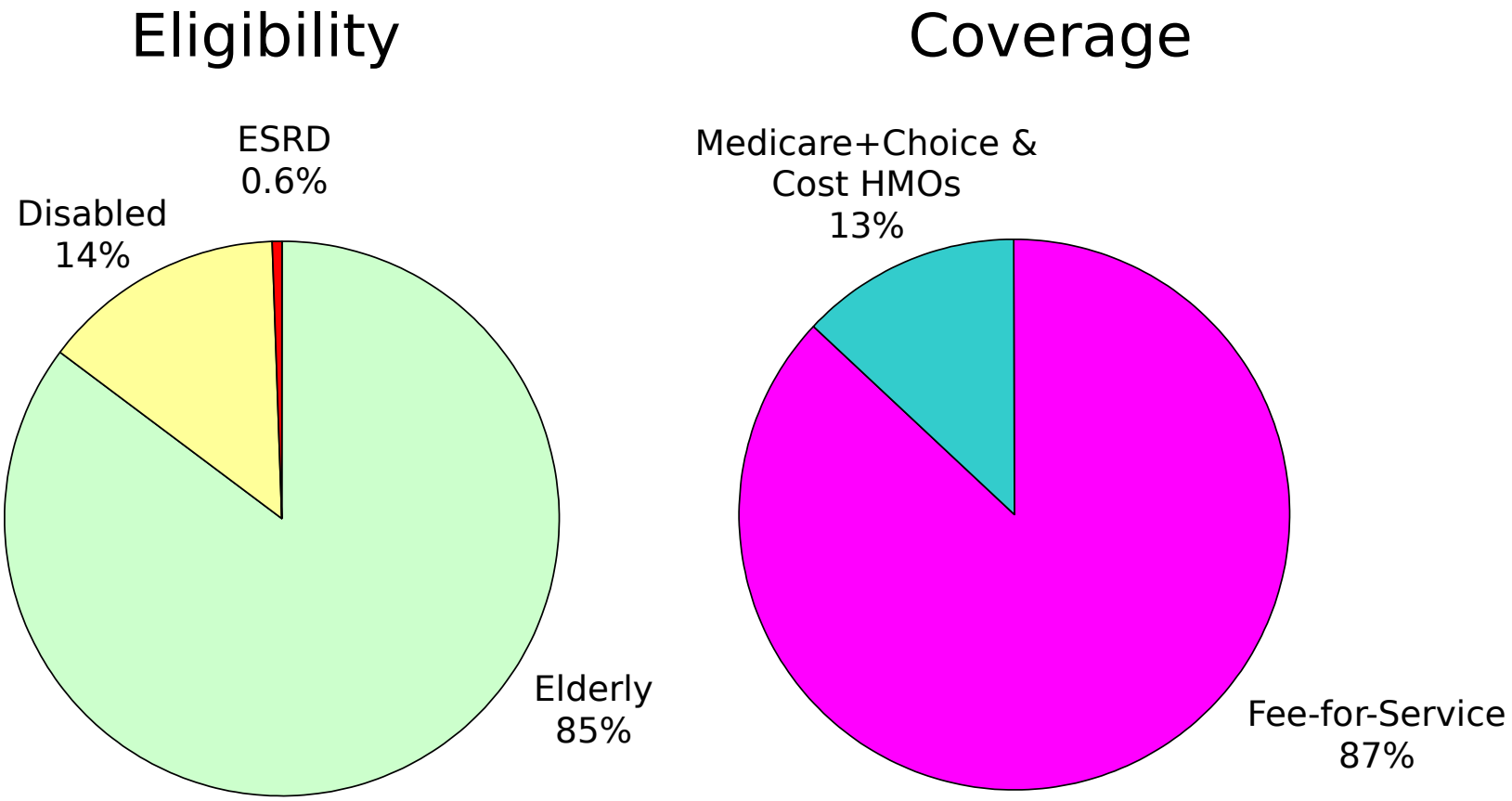
Source: CMS, Office of the Actuary.

Age and Gender of the Medicare Population



Source: CMS, Office of Research, Development, and Information: data from the Medicare Current Beneficiary Survey (MCBS) 2000 Access to Care File.

Medicare Beneficiaries Eligibility and Coverage, 2002



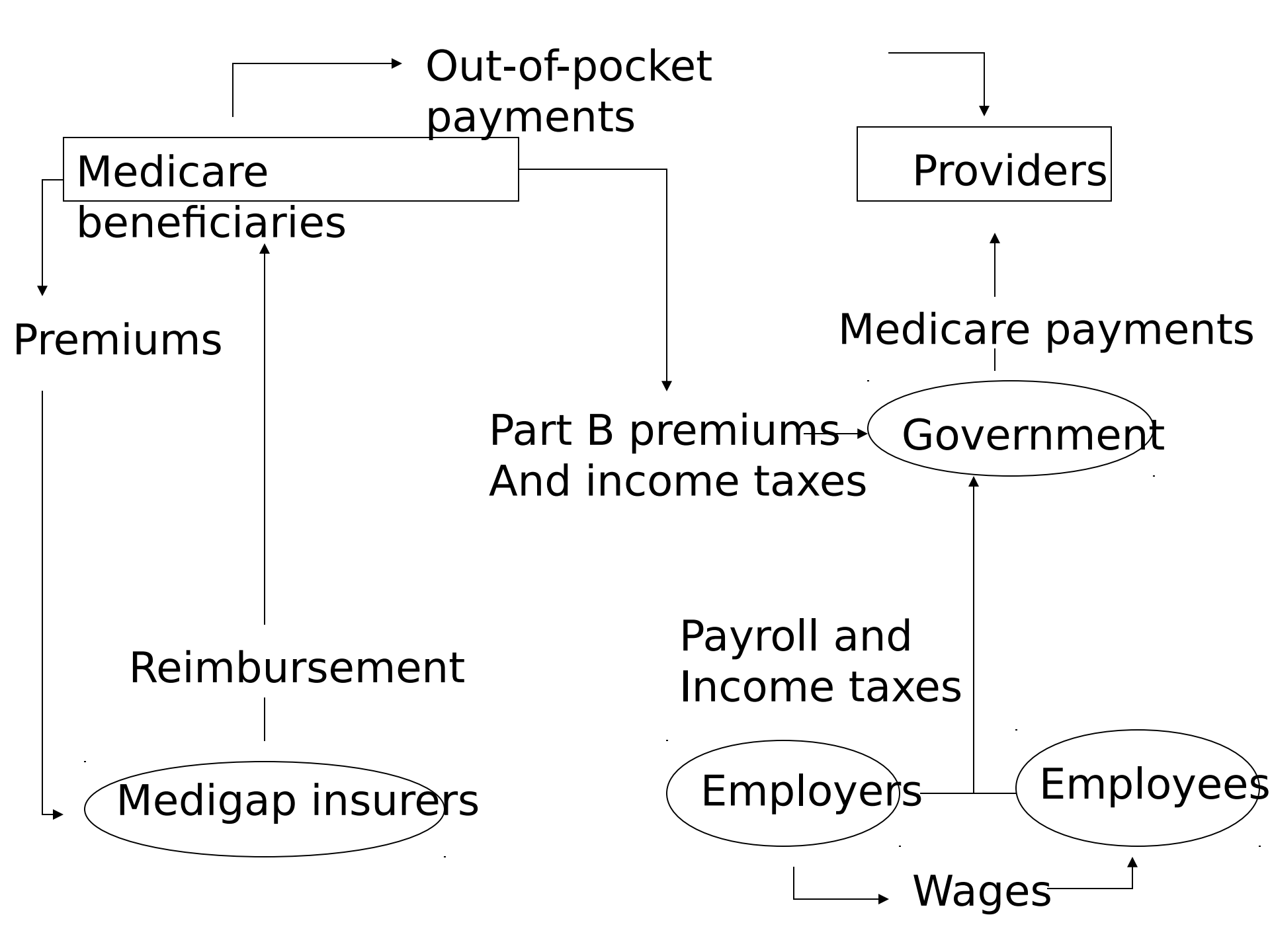
Source: Elderly, disabled, and ESRD data from CMS's Office of the Actuary; Medicare+Choice and cost plan data from CMS's Medicare Managed Care Contract Report, March 2002.

Medicare Covered Services

- ✓ Part A
  - Hospital care
  - SNF
  - Home health care
  - Hospice care

- ✓ Part B
  - Professional services
  - Durable Medical Equipment
  - Home health care

http://www.cms.hhs.gov


Out-of-pocket payments
Medicare beneficiaries
Providers
Premiums
Medicare payments
Part B premiums And income taxes
Government
Reimbursement
Payroll and Income taxes
Medigap insurers
Employers
Employees
Wages

What is not covered?

- ✓ Prescription drugs (outpatient)
- ✓ Eyeglasses (except post-cataract surgery)
- ✓ Hearing Aids
- ✓ Experimental tests and treatments (except. . .)
- ✓ Long term care

Medicare & You pdf file – reference on course website

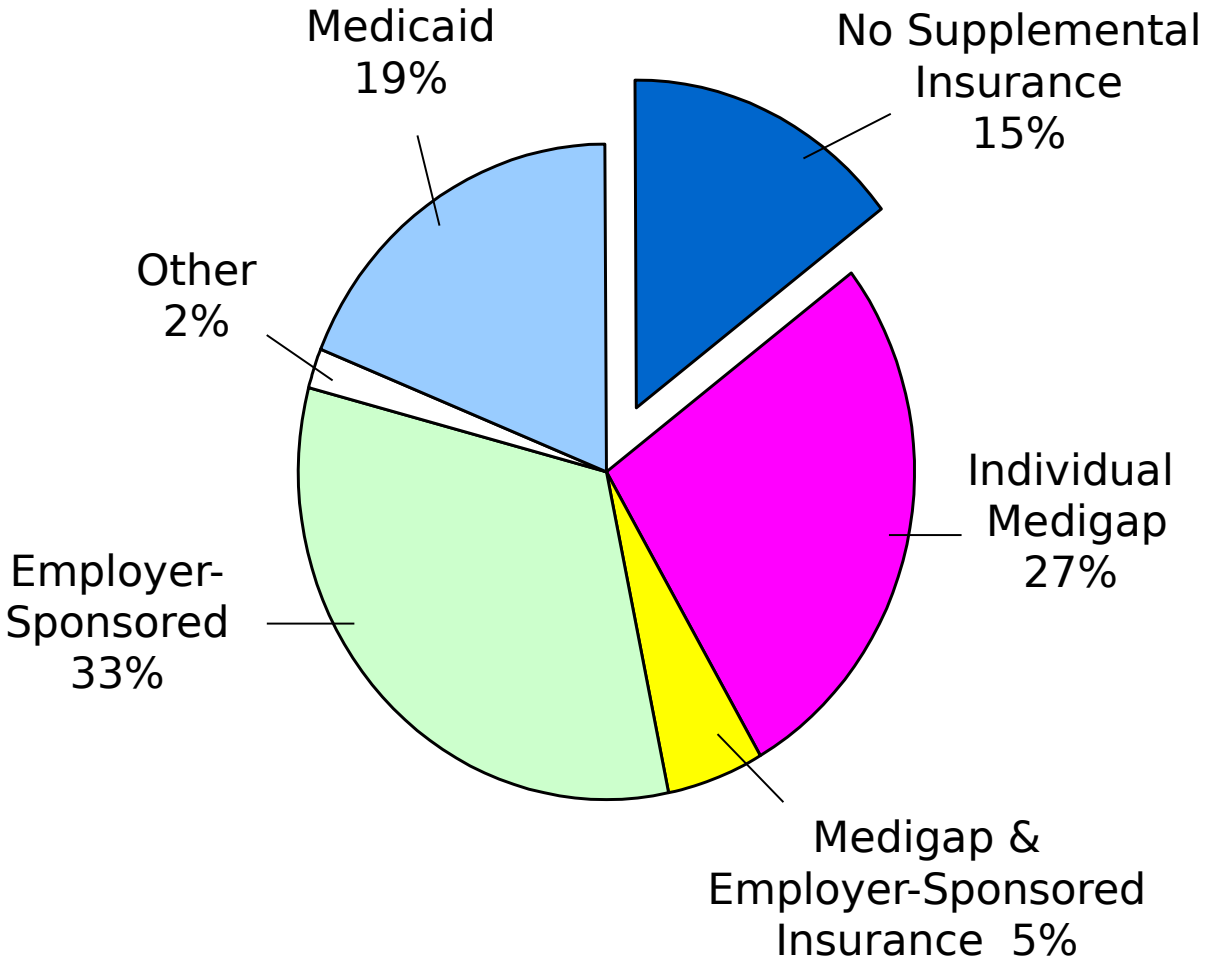
Medicare Payments

- ✓ Prior to 1983, paid on a “reasonable cost” basis
- ✓ Current payment methods
  - Fee schedule basis
  - Outpatient prospective pay system
  - Per capita basis
    - Medicare+Choice enrollees
  - ✓ Prospective payment (patient acuity) for long term care (phase-in over next 5 years)
- ✓ There are non-covered services

Medicare: Iowa officials announce plans to file lawsuit; some call for Scully's resignation

Sept. 3, 2002—In the latest twist in an escalating conflict between Iowa officials and HHS over the state's reimbursement rates, Rep. Leonard Boswell (D-Iowa) has called for the resignation of CMS Administrator Tom Scully. Boswell made the demand, communicated in a letter to President Bush, in response to Scully's heated reaction to a plan announced by Iowa officials to legally challenge the formulas that dictate Medicare reimbursement—an action taken in hopes of obtaining higher rates for providers in Iowa.

Supplemental Health Insurance Held by Fee-for-Service Medicare Beneficiaries



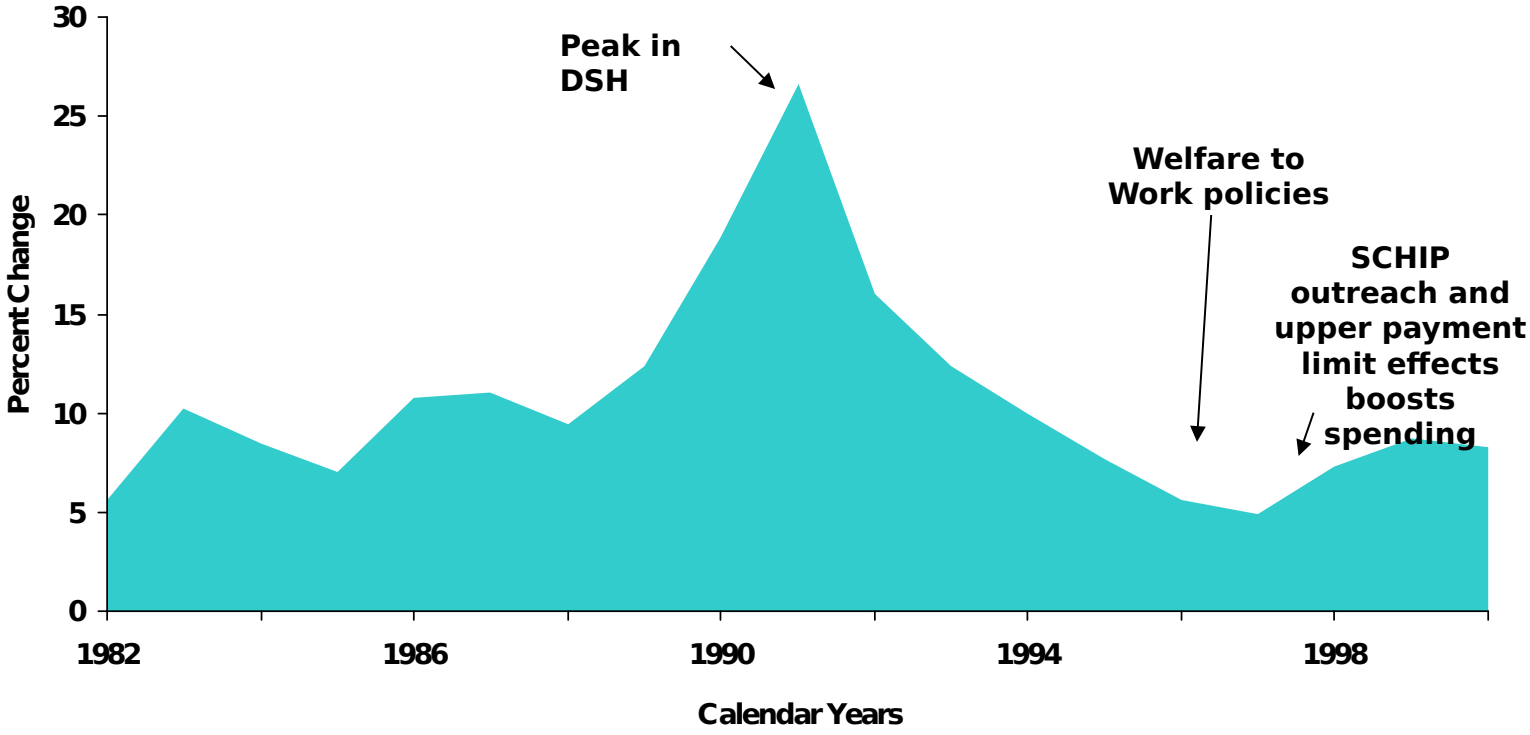
Source: CMS, Office of Research, Development, and Information: Data From the Medicare Current Beneficiary Survey (MCBS) 2000 Access to Care File.

Medicaid

- ✓ Title XIX - Social Security Act 1965
  - Federal-State matching entitlement program
- ✓ Provides medical assistance for those with low incomes and resources
- ✓ 38M beneficiaries
  - Children, and the adults who care for them
  - Elderly
  - Blind and disabled
  - “Medically needy”
- ✓ Cost - $165B for 2002 (projected)

Growth in Medicaid Spending

Changing Medicaid eligibility rules and a spillover effect from outreach efforts under SCHIP led to increasing Medicaid spending in 1998 and 1999 followed by stabilization in 2000.



Note: DSH is disproportionate share hospital. SCHIP is the State Children's Health Insurance Program. For a discussion of changing eligibility policies, see K. Levit et al., "Health Spending in 1998: Signals of Change," *Health Affairs* (Jan/Feb 2000): 124-132.

Source: CMS, Office of the Actuary , National Health Statistics Group.

State role

- ✓ Establishes its own eligibility standards
- ✓ Determines type, amount, duration, and scope of services
- ✓ Sets the rate of payment for services
- ✓ Administers its own program
- ✓ Therefore, there is great variability

Medicaid Covered Services

- ✓ All States cover the minimum:
  - Hospital
  - Physician
  - Nursing home services
- ✓ States have the option of covering additional services:
  - Prescription drugs
  - Hospice care
  - Personal care services

Medicaid Covered Services

- ✓ Largest insurer of long term care for all Americans, including the middle class
- ✓ Covers 68 percent of nursing home residents and over 50 percent of nursing home costs
- ✓ Covers skilled nursing facility care, intermediate care facilities for the mentally retarded and developmentally disabled, and home and community based- services

Military Health System

$25 Billion Annual Budget

- 8.3 Million Covered Lives Worldwide
- 76 Hospitals & 460 Clinics
- 131,000 personnel

Department of Veterans Affairs (VA)

- ✓ Title 38, created post WW2
- ✓ 1989 name changed from Veterans Administration to Department of Veterans Affairs
- ✓ Composed of :
  1. VBA (Veterans Benefits Administration)
     Home loans, G.I. Bill, pensions and benefits
  2. NCS (National Cemetery Service)
     Burials and memorials
  3. VHA (Veterans Health Administration)

Veterans Health Administration

- Who are its customers?
  - 26 million eligible veterans
  - 10 million entitled (SC, POW, IR, AO)
- Entitlements:
  - >50% Service-connected disability
  - Ionizing radiation exposure
  - Agent orange exposure
  - Prisoners of War

Veterans Health Administratio

- ✓ Priorities for care:

1. Veterans entitled to care (>50% SC, POW, IR, AO)
2. < 50% SC
3. Non-Service Connected Disability
   - Incomes < welfare level have a higher priority

Policy Sep 2002: priority access will be provided to severely disabled veterans, moderately disabled veterans with service related conditions, and the

Indian Health Service

- ✓ Indian Health Care Improvement Act (Public Law 94-437)
- ✓ Agency of the US Public Health Service, Department of HHS
- ✓ Provides services to nearly 1.5 million American Indians and Alaska Natives of 557 federally recognized tribes in 34 states
- ✓ $2.2B annual budget

Bureau of Prisons

- ✓ Federal prison system - 94 facilities
- ✓ Population - 130,000
- ✓ Male/female - 93%/7%
- ✓ Race - 58%W/39%B
- ✓ Ethnicity - Hispanic - 39%/multicultural
- ✓ Age - 37 years - mean

Bureau of Prisons

Health care Issues

- ✓ TB rates - 30-40 cases/year
- ✓ HIV Seroprevalence - 1%
  - Diagnosed population - 1,100
- ✓ Hepatitis C - linkage to IDU
  - Burden of infection - 20-50% inmates
- ✓ Women's health issues
  - Domestic violence
- ✓ Psychiatric illness – prevalent
- ✓ Drug use - 60-80% inmates have used drugs

Summary

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